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Impact Aid: Overview and Reauthorization Issues

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ABSTRACT

The 106th Congress is likely to consider the reauthorization of the Elementary and Secondary Education of 1965, as amended (ESEA). Title VIII of the ESEA authorizes Impact Aid, which is the subject of this report. In general, Impact Aid compensates local educational agencies (LEAs) for “substantial and continuing financial burden” resulting from tax revenue lost as a result of federal activities. The report reviews recent appropriations history, which shows generally increased funding for Impact Aid since FY1995. The report concentrates on the specifics of how Impact Aid basic support payments are made, because these payments represent about 80% of all Impact Aid appropriations. The report also examines changes in the distribution of these payments resulting from the 1994 amendments to the program — most noticeably the increase in payments for children of parents who both work and live on federal land and for children residing on Indian lands. Finally the report outlines possible reauthorization issues, including whether **all** payments should be based on children of parents living and working on federal land and on children residing on Indian lands. The report will be updated as legislative developments warrant.

Impact Aid: Overview and Reauthorization Issues

Summary

The 106th Congress is likely to consider the reauthorization of the Elementary and Secondary Education of 1965, as amended (ESEA). Title VIII of the ESEA authorizes Impact Aid, which is the subject of this report. In general, the Act authorizes programs — including Impact Aid programs — through FY1999. In addition, a one-year extension is provided under the General Education Provisions Act (GEPA, Section 422). In this case, the extension of authorization is through FY2000.

Impact Aid compensates local educational agencies (LEAs) for “substantial and continuing financial burden” resulting from federal activities. These activities include federal ownership of certain lands as well as the enrollment in LEAs of children of parents who work and/or live on federal land. The federal government provides compensation because these activities deprive LEAs of the ability to collect property or sales taxes from these individuals (for example, members of the Armed Forces living on military bases) even though the LEAs are obligated to provide free public education to their children. Thus Impact Aid is intended to compensate LEAs for the resulting loss of tax revenue.

Key points made in this report include:

- Between FY1995 and FY1999, appropriations for Impact Aid have increased by nearly 20%.
- Impact Aid basic support payments, which compensate LEAs that enroll “federally connected” children, make up about 80% of all Impact Aid payments.
- Significant changes resulting from the 1994 reauthorization of Impact Aid (most notably the specification of weights for different types of federally connected children and changes in how funds are reduced when appropriations are insufficient to make maximum support payments) resulted in substantial shifts of funds to states with more heavily impacted LEAs.
- Issues for reauthorization of Impact Aid include whether to change any of these weights and whether LEAs should receive compensation for all classifications of federally connected children.

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Impact Aid: Overview and Reauthorization Issues

Overview

Introduction. The 106th Congress is likely to consider the reauthorization of the Elementary and Secondary Education of 1965, as amended (ESEA). Title VIII of ESEA authorizes Impact Aid, which is the subject of this report. In general, the Act authorizes programs — including Impact Aid programs — through FY1999. In addition, a 1-year extension is provided under the General Education Provisions Act (GEPA, Section 422). In this case, the extension of authorization is through FY2000.

The Impact Aid program is one of the oldest federal education programs, dating from 1950. The program originally was authorized by companion statutes — P.L. 81-874 and P.L. 81-815. The Improving America's Schools Act of 1994 (IASA, P.L. 103-382), which reauthorized and substantially revised the ESEA in 1994, repealed those statutes, reauthorized and revised Impact Aid, and incorporated its programs into Title VIII of the ESEA.

Impact Aid compensates local educational agencies (LEAs) for “substantial and continuing financial burden” resulting from federal activities. These activities include federal ownership of certain lands as well as the enrollment in LEAs of children of parents who work and/or live on federal land. The federal government provides compensation because these activities deprive LEAs of the ability to collect property or sales taxes from these individuals (for example, members of the Armed Forces living on military bases) even though the LEAs are obligated to provide free public education to their children. Thus Impact Aid is intended to compensate LEAs for the resulting loss of tax revenue.

This report summarizes Impact Aid programs, details the recent appropriations history of Impact Aid, provides specifics of how Impact Aid basic support payments are made, examines impacts on these payments resulting from the IASA, and outlines possible reauthorization issues.

Types of Impact Aid Payments. ESEA Title VIII authorizes the following types of payments:¹

- Section 8002 compensates school districts for the federal ownership of certain property. To qualify for compensation, the federal government must have acquired the property after 1938 and the assessed value of the land at the time it was acquired must have represented at least 10% of the assessed value of all the LEA's real property. Approximately 240 LEAs receive Section 8002 payments.
- Section 8003 compensates school districts for numbers of "federally connected" children. These are children of parents who are members of the Armed Forces and either live on or off the base; live on Indian lands; live in low-rent housing; or are civilians who work and/or live on federal land.
 - Section 8003(b) authorizes "basic support payments" for federally connected children in about 1,450 LEAs.
 - Section 8003(d) authorizes additional payments to LEAs based on the number of certain children who are eligible to receive services under the Individuals with Disabilities Education Act (IDEA). Payments are limited to certain IDEA-eligible children, most notably those whose parents are members of the Armed Forces (either residing on or off the base), and those residing on Indian lands.² About 832 LEAs receive these payments.
 - Section 8003(f) provides additional payments for about 20 to 30 "heavily impacted LEAs" — those that enroll large numbers or high proportions of federally connected children.
- Section 8006 compensates school districts experiencing rapid and substantial increases in children of military parents. This provision has not been funded in recent years.
- Section 8007 provides funds for construction to "heavily impacted LEAs" and other LEAs with high percentages of children living on Indian lands or children of military parents. Between 140 and 150 LEAs receive these payments.
- Section 8008 provides funds for facilities maintenance for 53 schools serving military dependent children. These schools are located on military bases.³

¹ Other significant Impact Aid provisions include Section 8004, which details policies regarding children residing on Indian lands, and Section 8009, which prohibits states from considering Impact Aid payments in determining state aid to LEAs unless the state has an approved program to equalize expenditures among LEAs.

² A weighted count of these children is then determined. Children of military parents living off the base are weighted 0.5; all others are weighted 1.0. An LEA's payment is simply its percentage share of the total weighted child count times the funds appropriated for 8003(d).

³ The Department of Defense, since 1983, has assumed responsibility for 69 other facilities located on domestic military bases. These were formerly known as "Section 6" schools in reference to that section of P.L. 81-874.

Recent Appropriations History Since the 1994 Reauthorization

Table 1 shows the appropriations for Impact Aid since the 1994 reauthorization (FY1995-FY1999) and the President's FY2000 budget request. As the table shows, the Congress has, with the exception of FY1996, steadily increased appropriations for most Impact Aid payments. The overall increase during this period has been nearly 19%, with basic support payments (Section 8003(b)) rising more than 11% and payments for children with disabilities (Section 8003(d)), for heavily impacted districts (Section 8003(f)), and for federal property (Section 8002) rising more substantially. In addition, Congress has begun funding payments in two areas that were not funded in FY1995: payments for construction (Section 8007) and for facilities maintenance (Section 8008).⁴

Table 1 also shows that the President is requesting nearly 15% less for Impact Aid for FY2000. This cut would include a modest reduction in basic support (-3%), a more substantial cut in payments for disabled children (-20%), and the elimination of funding for heavily impacted districts and for federal property. Some of the Administration's rationales for these cuts are discussed later under reauthorization issues.

Finally **Table 1** shows that payments for federally connected children (Section 8003) account for nearly all (95.4%) of Impact Aid appropriations. Moreover, the basic support payments (Section 8003(b)) alone account for more than 80% of the appropriations. In comparison, payments for federal property account for only 3.2% and construction and facilities maintenance each account for less than 1%. For this reason, the remainder of this report will concentrate on Section 8003(b) payments for federally connected children.

⁴ In addition to appropriations made through ED, funds are often appropriated through the Department of Defense (DOD) for additional payments to LEA serving children of parents in the military. P.L. 105-261, which authorizes FY1999 appropriations for DOD, provides \$35 million to assist "local educational agencies that benefit dependents of members of the Armed Forces and Department of Defense civilian employees" as provided under P.L. 102-484 (20 U.S.C. 7703).

Table 1. Recent Impact Aid Appropriations
(dollars in \$000)

	Fiscal year						
	1995	1996	1997	1998	1999	1999 vs. 1995	2000 Request
	Appropriations						
Impact Aid (ESEA VIII):							
1. Payments for federally connected children (Section 8003):							
(a) Basic support payments (Section 8003(b))	\$631,707	\$581,707	\$615,500	\$662,000	\$704,000	11.4%	\$684,000
(b) Payments for children with disabilities (Section 8003(d))	40,000	40,000	40,000	50,000	50,000	25.0%	40,000
(c) Payments for heavily impacted districts (Section 8003(f))	40,000	50,000	52,000	62,000	70,000	75.0%	0
Subtotal	\$711,707	\$671,707	\$707,500	\$774,000	\$824,000	15.8%	\$724,000
2. Facilities maintenance (Section 8008)	0	0	0	3,000	5,000	—	5,000
3. Payments for increases in military dependents (Section 8006).	0	0	0	0	0	—	0
4. Construction (Section 8007)	0	5,000	5,000	7,000	7,000	—	7,000
5. Payments for Federal property (Section 8002)	16,293	16,293	17,500	24,000	28,000	71.9%	0
Total	\$728,000	\$693,000	\$730,000	\$808,000	\$864,000	18.7%	\$736,000

Source: Department of Education Budget Office

Basic Support Grant Formula (Section 8003(b))

The Impact Aid basic support grants formula has several components:

- LEAs provide the U.S. Department of Education (ED) with counts of various types of federally connected children.
- Weights are applied to each count to reflect differences in tax revenues lost and educational costs.
- A cost factor or Local Contribution Rate (LCR — basically a per pupil expenditure amount) is determined for each LEA.
- Maximum grants are calculated by multiplying the weighted children count by the LCR.
- Actual payments are reduced if appropriations are insufficient (as they currently are) to make maximum grant payments.

Types of Federally Connected Children and Their Weights. Table 2 shows the categories of federally connected children and the weights that the Act assigns to them.

As **Table 2** shows, children residing on Indian lands receive the highest weight. The next highest weight is given to children who live on federal land⁵ **and** whose parents:

- are employed on federal land,
- are members of the Armed Forces, or
- are accredited foreign military officers.⁶

Those receiving much lower weights are:

- children with a parent in the military living off the base,
- children residing in low-rent housing,
- children living on federal land but whose parents do not work on federal land, and
- children whose parents work on federal land but do not live on federal land.⁷

⁵ See Section 8013(5) for a definition of federal land.

⁶ These highly weighted children (including children living on Indian lands) are sometimes known by a shorthand designation as “3(a)” or just “a” children, which is a reference to a subsection of the previous Impact Aid statute (P.L. 81-874). Although no longer relevant to the current law, this shorthand designation is still used and will be used in this report.

⁷ These children receiving lower weights are sometimes known by a shorthand designation as “3(b)” or just “b” children, which is a reference to a subsection of the previous Impact Aid statute (P.L. 81-874). Although no longer relevant to the current law, this shorthand designation is still used and will be used in this report.

**Table 2. Types of “Federally Connected” Children and Weights
Assigned to Them in the Impact Aid Basic Support Payments Formula
(Section 8003(a))**

Children attending school in the LEA who:	Weight
reside on Federal property with a parent employed on federal property situated in whole or in part within the boundaries of the LEA (A)(i);	1.0
reside on Federal property with a parent who is an official of, and accredited by, a foreign government and is a foreign military officer (A)(ii)	1.0
reside on Federal property and have a parent on active duty in the uniformed services (B)	1.0
reside on Indian lands (C)	1.25
have a parent on active duty in the uniformed services but do not reside on Federal property (D)(i)	0.1
have a parent who is an official of, and has been accredited by, a foreign government and is a foreign military officer but do not reside on Federal property (D)(ii)	0.1
reside in low-rent housing (E)	0.1
reside on Federal property and are not described in subparagraph (A) or (B) (F)	0.05
reside with a parent who works on Federal property situated — (i) in whole or in part in the county in which such LEA is located, or in whole or in part in such LEA if such LEA is located in more than one county; or (ii) if not in such county, in whole or in part in the same State as such LEA (G)	0.05

To illustrate how the first part of the formula works, suppose that a school district has 200 students whose parents are in the military and live on the base, 100 students who live on Indian lands, and 300 students whose parents are in the military but live off the base. The school district’s weighted student count would be:

200 military/on base	times	1.00 =	200
100 on Indian lands	times	1.25 =	125
300 military/off base	times	0.10 =	<u>30</u>
Total			600 355

Thus this hypothetical district has 600 federally connected children, but for the purposes of the formula, the weighted count of these children is 355.

Local Contribution Rate (LCR) and Maximum Payments. Next the weighted student count (or “weighted student units”) is multiplied by a cost factor (sometimes called the Local Contribution Rate — LCR), which is the greatest of:

- one-half of the state average per-pupil expenditure (APPE),
- one-half of the national APPE,
- the previously determined LCR for comparable districts with unusual circumstances, (such as those serving a particular large number of disabled children), or
- the state APPE times the local contribution percentage (i.e., the percentage of educational expenditures that come from the local level).⁸

Thus the LCR will vary from LEA to LEA.

The weighted student total is multiplied by whichever of these amounts is greatest for a given LEA. Suppose for our hypothetical example that one-half the national APPE was the highest amount, which ED estimates as \$3,000 for FY1999. The maximum payment for our hypothetical school district would be \$3,000 times 355 = \$1,065,000.

Reduction Due to Insufficient Appropriations. Current appropriations fall short of the funds required to make all maximum Section 8003(b) payments.⁹ Under these circumstances, the Act specifies how payments are reduced to correspond with appropriations. The general principle is that more heavily impacted districts (i.e., those more dependent on Impact Aid payments) receive higher percentages of their maximum payments than less impacted districts. This principle is achieved by calculating a “Learning Opportunity Threshold” (LOT) payment. This is a percentage of the maximum payment determined by adding:

- The percentage of an LEA’s average daily attendance that is composed of federally connected children, and
- The percentage of an LEA’s total current expenditure that is composed of Section 8003 payments.¹⁰

This total percentage must not exceed 100%. This percentage is multiplied by the maximum payment to produce the LOT payment.

If, in our hypothetical LEA, federally connected children account for 20% of all children in average daily attendance and Impact Aid funds are 30% of the LEA’s current expenditures, then the LOT percentage would be 50% and the LOT payment would be 50% of \$1,065,000 or \$532,500.

⁸ This alternative would be used in states in which local funds account for more than one-half of the APPE.

⁹ ED estimates that \$1.363 billion would be needed in FY1999 for full funding of the maximum payments. (U.S. Department of Education FY2000 Budget Justifications, p. C-33).

¹⁰ Payments under subsection (f) are excluded from the calculation.

Finally current appropriations may not be sufficient to make all of the LOT payments. In this case, only a percentage of the LOT payment is made. In FY1997, for example, the LOT payment was reduced to 75% according to ED.¹¹

Use of Impact Aid Payments. Impact Aid payments differ from funds provided by other federal elementary and secondary education programs. Impact Aid funds provided under Section 8003 are not limited to specified uses (such as, improving the educational achievement of disadvantaged students) but can be spent for any current local expenditures. In addition, except for funds distributed based on disabled students, Impact Aid funds need not be spent just on federally connected children. Finally, because Impact Aid payments are not aimed at specific educational goals, accountability for use of funds or for specific outcomes are minimal or nonexistent.

Changes in Payments Since the 1994 Reauthorization

The 1994 reauthorization of Impact Aid made significant changes in the program,¹² which are evident in examining changes in payments between FY1994 and more recent fiscal years. The following table shows some of the effects of changes in the program.

Table 3. Selected Characteristics of Impact Aid Basic Support Payments

	FY1994	FY1999	% Change
Appropriations	\$736.6 million	\$704.0 million	-4.4%
Estimated “a” payments	\$613.4 million	\$643.2 million	4.9%
Estimated “b” payments	\$123.1 million	\$61.1 million	-50.1%
LEAs receiving payments	2,500	1,450	-42.0%
Number of “a” children	339,000	291,841	-13.9%
Number of “b” children	1,497,000	1,261,244	-15.7%

Source: U.S. Department of Education Budget Justification for FY1994, FY1995, and FY2000.

¹¹ The Act also requires that, if funds are sufficient, basic support payments not be less than 85% of the previous years payments (although this requirement only can apply to a particular LEA for two consecutive years). It should also be noted that language in appropriations bills often modifies some aspects of the formula as specified in the authorizing statute.

¹² For example, the prior law (P.L. 81-874) separately determined “a” and “b” payments. When appropriations were inadequate to make maximum payments, payments were reduced based only on an LEA’s percentage of average daily attendance that was composed of federally connected children. For information on the prior law, see CRS Report 91-111, *The Impact Aid Program Under Section 3 of Public Law 81-874*, by Richard N. Apling

Most notable are the decreases in the number of LEAs receiving basic support payments (down more than 40%), the amount of “b” payments (down more than 50%), and the number of “b” children (down more than 15%). Although some of these decreases may be due to the slight (4.4%) decrease in appropriations between FY1994 and FY1999, the bulk of the changes are most likely due to changes in the law. The decrease in LEAs receiving payments probably can be attributed, at least in part, to the requirement that payments for civilian “b” children are limited to LEAs in which the number of such children is at least 1,000 **or** these children make up at least 10% of the average daily attendance in the LEA. This provision has presumably resulted in making a large number of LEAs that only enroll civilian “b” students ineligible for payments. This requirement is also related to the drop in the number of “b” children and the reduction in “b” payments. The drop in “b” payments is also tied to the low weights given to these children (0.1 or less). Similarly the high weights given “a” children probably accounts for the increase in “a” payments, even though overall appropriations have declined somewhat.

In addition to changes discussed above, changes in Impact Aid legislation appear to have shifted funding among states. In general, states with high numbers of “b” children have lost funds to states with high numbers of “a” children — especially states with large Indian populations — because of the higher weight given to children residing on Indian lands and other “a” children. The following table illustrates some of these shifts for selected states.¹³

Table 4. Estimated State Total Impact Aid Basic Support Payments for Selected States

	FY1994	FY1998	% change
Total appropriations	\$736,574,000	\$662,000,000	-10%
Undistributed funds	78,311,000	53,550,000	
Arizona	64,973,000	99,586,000	53%
California	64,330,000	44,393,000	-31%
Massachusetts	5,226,000	818,000	-84%
Michigan	6,767,000	1,432,000	-79%
Missouri	5,926,000	7,712,000	30%
Montana	24,231,000	27,723,000	14%
Nebraska	8,151,000	11,668,000	43%
New Mexico	37,501,000	57,634,000	54%
Pennsylvania	3,568,000	1,311,000	-63%
South Carolina	7,363,000	2,173,000	-70%

¹³ Because ED requires 2 or more years to completely distribute Impact Aid funds, final payments are not usually readily available. As **Table 4** shows, reports of FY1994 allocations in the FY1996 Justifications and reports of FY1998 allocations in the FY2000 Justifications indicated tens of millions of dollars still undistributed. This makes comparisons across years difficult because one is not totally sure which states will ultimately receive unallocated funds.

Source: The U.S. Department of Education Budget Justifications for FY1996 and FY2000

Reauthorization Issues for Basic Support Payments

Because Impact Aid differs from other federal elementary and secondary education programs, Impact Aid reauthorization considerations do not raise issues, such as how funds should be spent; whether target children are being served; or how to hold LEAs accountable for program outcomes. Instead reauthorization issues center on how best to distribute limited Impact Aid funds to compensate LEAs for federal activities.

Eliminate Payments on Behalf of “b” Children. The argument for eliminating “b” payments is that these children represent a lower financial burden than do “a” children. ED annually recommends either cutting funds for “b’s” or transferring all or some of those funds to payments for “a’s.” The FY2000 budget request, for example, “would use all Basic Support funds to make payments on behalf of these children [i.e., “a” children], because they present the greatest financial burden to LEAs.” FY1998 budget testimony by the Assistant Secretary for Elementary and Secondary Education outlined ED’s argument against “b” payments:

[W]e don’t have a responsibility for children, for example, whose parent works for the Federal Government but they live in the community. That family is paying taxes within the community to support the local schools. That’s a form of double dipping if we support those folks ... I guess what we’re trying to say is that we’re trying to meet the needs of the schools enrolling children who present the greatest burden because they do not generate local revenues.¹⁴

The Appropriations Committees regularly reject this argument. For example, the report accompanying the FY1999 House Labor, Health and Human Services, Education, and Related Agencies Appropriations bill stated that:

The bill does not adopt the President’s proposal to amend the authorizing statute to reduce by 800 the number of school districts receiving payments and to reduce by 1,100,000 the number of children on behalf of whom payments are made. The Committee regards impact aid as an obligation of the federal government and has included funds sufficient to adequately reimburse school districts adversely impacted by federal activities.¹⁵

Adjusting Local Contribution Rates to Account for State Funding. In its latest budget request, ED recommends eliminating some measures of local costs and adding new ones to “more closely approximate the actual local cost of educating

¹⁴ Departments of Labor, Health and Human Services, Education, and Related Agencies Appropriations for 1998. Hearings before the Subcommittee on the Departments of Labor, Health and Human Resources, Education, and Related Agencies. Part 5. Department of Education, p. 193.

¹⁵ H.Rept. 105-635 accompanying H.R. 4274, p. 152 .

federally connected children.”¹⁶ ED points out that the local cost of educating children varies from state to state depending on state contributions to the overall cost of providing free public education. However, two of the LCR alternatives (the one-half state APPE and the one-half national APPE) assume that local contributions represents ½ of the cost in all states. But ED points out that actual local shares vary from 12% to 87%. Thus, ED argues, LEAs with high contribution rates are being under-compensated while those contributing relatively little are being over-compensated. ED’s recommendation is to adjust the LCR by the state’s contribution percentage.

While one can argue that ED’s recommendation more equitably compensates LEAs for their true costs of educating federally connected children, a major practical problem with this approach is that it can drastically decrease payments to LEAs in some states while substantially increasing payments in other states. ED’s estimates of state amounts for the FY2000 budget request illustrates possible reallocation from this proposal. For example, New Mexico (where local funds contribute about 25% of total revenues) and Alaska (with approximately one-third of revenues coming from local sources) would lose substantially.¹⁷ LEAs in New Mexico would receive an estimated \$66 million in FY1999 but \$21 million under ED’s proposed budget — nearly a 70% decrease. Alaska’s districts would receive about 50% less (\$81 million in FY1999, 40 million in FY2000). States apparently benefitting (although less dramatically) from this proposals are those in which the local contribution is substantially above 50%. For example, New York, with local funds accounting for 55% of educational expenditures, would receive 21% more funding under this proposal.

Adjustment of LOT. ED also recommends modifying the LOT percentage, which is used to adjust basic support payments when appropriations are insufficient to make maximum payments. ED would base the LOT only on the percentage of an LEA’s average daily attendance that is made up of federally connected children. It would eliminate the part of the LOT calculated from the percentage that Impact Aid payments make of an LEA’s current expenditures. ED’s argues that the current computation of the LOT discourages LEAs from raising local revenues.

While one can accept ED’s argument in principle that LEAs should not be given incentives to lower local tax effort, this proposal — like those to eliminate “b” payments and to change the LCR alternatives — has the practical problem that payments to some LEAs could be substantially decreased.

Changing Student Weights. As noted above, the 1994 changes in Impact Aid — particularly the addition of “weighted student units” — redistributed funds in favor of “a” students. A possible reauthorization issue is whether to readjust these weights to increase payments on behalf of LEAs with mostly “b” students.

¹⁶ Department of Education. *Justifications of Appropriation Estimates to the Congress Fiscal Year 2000*. p. C-16.

¹⁷ Estimates of state revenue percentages are for school year 1993-94 from the *Digest of Education Statistics 1997*. Table 160.

The National Association of Federally Impacted Schools (NAFIS — the advocacy group for these school districts), while apparently satisfied overall with the current basic support grant formula, recommends increasing the weight for “military b” children (from 0.1 to 0.25) and increasing the weight for children of civilian parents who work or live on federal property (“civilian b” children) from 0.05 to 0.1).¹⁸

Increasing these weights would increase funds for LEAs enrolling such children (all else equal). At the same time, unless appropriations increase, these increased payments would result in lower payments for LEAs enrolling “a” children — arguably the more highly impacted LEAs.

¹⁸ The proposal was obtained from NAFIS website at [<http://www.sso.org/nafis>].